

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6601**

**BILL NUMBER:** HB 1006

**NOTE PREPARED:** Dec 3, 2003

**BILL AMENDED:**

**SUBJECT:** Property Tax Deduction Increases.

**FIRST AUTHOR:** Rep. Welch

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** ☒ GENERAL  
☒ DEDICATED  
FEDERAL

**IMPACT:** State & Local

STATE IMPACT	FY 2004	FY 2005	FY 2006
State Revenues	(25,000)	(50,000)	(50,000)
State Expenditures	(950,000)	(2,800,000)	(2,800,000)
Net Increase (Decrease)	925,000	2,750,000	2,750,000

**Summary of Legislation:** This bill increases the deduction amount for the following: (1) elderly deduction; (2) blind or disabled deduction; (3) 10% disabled veteran's deduction; (4) 100% disabled veteran's deduction; (5) WWI surviving spouse deduction; (6) WWI veteran's deduction; (7) one- and two-family dwelling rehabilitation deduction; (8) 50-year-old home rehabilitation deduction; and (9) residentially distressed area deduction.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** The increased deductions in this proposal would cause a reduction in some homesteaders' property tax bills which would result in a savings of homestead credit expenditures. **The reduction is estimated at \$950,000 in FY 2004 and \$2.8 M per year thereafter.**

Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any savings of homestead credit expenditures would ultimately benefit the state General Fund.

**Explanation of State Revenues:** The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The total revenue reduction under this proposal is estimated at \$25,000 in FY 2004 and \$50,000 each year thereafter.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current law, the property tax deductions for the elderly, blind/disabled, and 100% disabled veterans are equal to \$6,000 AV. The elderly deduction is further limited to ½ of assessed value. The WWI veterans and their surviving spouse deductions are currently set at \$9,000 AV. The wartime service-connected disabled veterans' deduction equals \$12,000 AV and the 100% disabled veteran deduction equals \$6,000 AV. This bill would increase all of these deductions by 108%.

For taxes paid in 2002, the statewide total of all of these deductions was \$1.219 B AV. The higher deduction amounts and higher qualifying income for the elderly deduction would result in additional deductions estimated at \$1.5 B AV. **This would cause an estimated net property tax shift of about \$29.3 M in CY 2004, \$29.8 M in CY 2005, and \$30.4 M in CY 2006.** These amounts would be shifted from those taxpayers who qualify for the deductions to all property owners in the form of a higher tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

The following table summarizes the changes in AV deducted for the above deductions:

<b>Deduction Type</b>	<b>2002 Deduction</b>	<b>Estimated 2004 Deduction</b>	<b>Increase</b>
Elderly	611.6 M	1,461.8 M	139%
Blind or Disabled	199.2 M	414.2 M	108%
Veterans (Combined)	407.9 M	848.5 M	108%
<b>Total</b>	<b>\$1,218.7 M</b>	<b>\$2,724.5 M</b>	<b>124%</b>

The bill also makes changes to the rehabilitated property deductions. The residential property rehabilitation deduction for one- and two-family homes currently equals up to \$9,000 AV per unit for five years. This deduction may be claimed for five years. The maximum deduction would increase to \$18,720 per unit under this bill. In addition, under current law, the deduction only applies if the total assessed value prior to rehabilitation did not exceed \$18,000 AV for a single unit home or \$24,000 for a two-family home. These AV caps would also be increased by 108%.

The historic property rehabilitation deduction for structures at least 50 years old currently equals up to \$60,000 AV for single family dwellings and up to \$300,000 AV for any other type of property. This deduction may be claimed for five years. This bill would increase the maximum deduction for single-family dwellings to \$124,800. The maximum deduction for other types of property would remain at \$300,000.

The deduction for rehabilitated property in a residentially distressed area currently equals up to \$96,000 AV, depending on whether the property contains one, two, three, or four units. This bill would increase each of the caps by 108% up to \$199,680 AV for four-family dwellings.

The value of these rehabilitation deductions is commingled with real property abatements on the auditor's abstract, making it impossible to quantify the current deductions. The total of all real property abatements plus rehabilitation deductions in 2002 was \$2.0 B AV. Real property abatements most likely make up the overwhelming majority of this aggregate number, leaving a smaller amount representing rehabilitation deductions. The increase for these deductions is not considered in the above shift estimates.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** County Auditors.

**Information Sources:** 2002 and 2003 County Auditors' Abstracts; Local Government Database.

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